## Improving Tax Certainty for Property Taxpayers

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### The Problem

Predictability is the foundation of a fair and soundly administered tax system. Most importantly, a predictable tax system ensures tax certainty for taxpayers. "Tax certainty" means that taxpayers can, year after year, consistently expect a predictable tax bill.

No one likes an unpleasant surprise when it comes to paying taxes. Taxpayers want to be certain as to what their tax liability will be and when the taxes are due. Tax certainty improves both taxpayer compliance and support for the tax system. Taxpayers lose confidence in the tax system, and view it as arbitrary and unfair, if it cannot provide a predictable and stable tax obligation.

Tax certainty is especially critical under the property tax. The property tax is the only tax where the government determines the tax to be paid and then sends a bill to collect the tax that is due, months after the assessment. Unlike sales or income taxes, where tax choices are largely in the hands of the taxpayer, a taxpayer's property tax liability is determined and controlled in large measure by the government.

Utah's current property tax system, based on fair market value (FMV), *does not* ensure tax certainty for taxpayers. Difficulties in accurately determining fair market value on a mass basis, volatile housing prices, shifting tax burdens, and tax rate increases, have led to dramatic increases in property taxes for many Utah taxpayers.

### Improving Taxpayer Certainty for Property Taxpayers

Improving taxpayer certainty will help restore taxpayer confidence in the property tax system. Under this proposal, property taxpayers can be certain that their annual property tax liability will nearly always be within certain bounds.

Highlights of the plan include:

- The tax basis (the base upon which the tax rate is applied) is the property's assessed value in the base year or acquisition value scaled by a growth factor. (The "base year" is yet to be determined. The tax basis may be based on a single year FMV, an average of two or more years' FMV, or the acquisition value.)

- Value at the time the property was acquired is the property's purchase price if the sale is an arm's length transaction. If the property was not acquired in an arm's length transaction, the value is determined by the county tax assessor as what it would have been under a fair market sale. (The buyer would be required to disclose the acquisition price to the county assessor.)

- The tax basis would annually increase by a certain known percentage. This growth factor would be based on the long-term historical appreciation of housing prices.

- Tax rates are set by each taxing entity. Tax rates will be adjusted according to truth in taxation. (Total current value * current rate = Total base value * growth factor * adjusted rate.)

- No change is made to truth in taxation. Full disclosure and public hearings regarding certain property tax revenue increases would still be required.

- Certain tax increases could continue to require a majority vote by the voters within the taxing entity.

**Issues**

1. Does this plan apply to residential property only? (Owner occupied and/or rental?) Or all locally assessed property? (No change is contemplated for personal property or centrally assessed property.)

2. Does this plan require a dynasty provision? How are property transfers between spouses treated? Between generations?

3. Should this plan allow a transferring of the "fixed basis" from one house to another. Within counties? Between counties? How many times? Age limit?

4. How to handle drop in housing prices? Drop below either base year level or acquisition value?

5. Is the "growth factor" set statewide or will it vary by region?

6. How to handle new construction on raw land when no sale occurs. How is the tax basis determined? Cost basis?